



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/20/2002

GAIN Report #RO2006

Romania

Grain and Feed

Annual

2002

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Report Highlights:

Dry conditions in Romania's main cereal-growing areas have negatively affected yield potential for the 2001/02 crop. Production of grains is expected to decrease in comparison to the previous marketing year, offering only a small exportable margin over domestic requirements.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1], RO

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EXECUTIVE SUMMARY

Weather conditions in Romania have contributed to a downward scenario for grains for the marketing year 2001/02; nevertheless, the new crop is anticipated to cover domestic consumption and provide an exportable surplus. The wheat harvest is currently forecast to be down 30 percent from last year, barley down 24 percent, while corn is expected down 9 percent in 2001. As price instability continues to be a major disincentive to cereal growers in Romania, acreage under these crops is expected to continue to shrink.

Application of fertilizer on winter crops has expanded significantly: as of March 2002 was 2.88 million hectares, whereas a year ago it was totaled 1.5 million.

Though biotech feed grain varieties have not yet approved for commercialization, in March 2002 a herbicide resistant corn event received clearance for field-testing throughout the next three years, starting this crop year.

PRODUCTION

In 2001, cereals represented about 22 percent of the total Romanian gross agricultural output, of which wheat and rye accounted for 8 percent, corn for 9 percent, and barley for 1 percent. Corn and wheat dominated in acreage (over 57 percent of total arable land, i.e., 5.5 million hectares); barley and two-row barley were cultivated on 526,000 hectares, oats on 219,000 hectares, while fodder crops made up for 1.1 million hectares (12% of the total arable land). The area planted to corn (almost 3 million hectares in 2001) has risen constantly during the '90s, due to an increasing number of small scale farms (poorly equipped with tractors and machinery, lacking cash and access to credit), which have chosen a low-risk, low-return production strategy - a shift from mechanized to non-mechanized crops.

Under weather conditions generally assessed as favorable for grain and feed crop development throughout 2001, yields were up 10% for wheat, 30% for corn and 20% for barley (reaching 2.62 MT/hectare, 2.4 MT/hectare and 3.4 MT/hectares respectively) compared to a year earlier. The overall output in 2001 was nearly 6.7 MMT of wheat, 7.0 MMT of corn and sorghum, over 1 MMT of barley, 496,000 MT of two-row barley, 355,000 MT of oats, 20,000 MT of peas.

Application of chemical fertilizer was slightly higher (by 8 percent) than in 2000 (standing at 370,000 MT active substance overall).

For 2002 - A Government Policy to Develop Crop Alternatives

Pursuant to the Romanian Government's policies to expand higher value crops, the 2002 production pattern shows some important changes, albeit grains remain the major crop in Romania. The 10% shrinkage in area planted to wheat can be also attributed to the extreme price fluctuations, since the abundant crop in the country and in the neighboring states resulted in low prices for producers.

The destination of Romania's wheat exports is mainly to Middle East and the east-Mediterranean countries, regions also targeted by the EU (whose inventories currently exceed 7 MMT). Because of steeply fluctuating prices and EU export subsidies in these markets, Romania's policy makers are promoting alternatives to the major cereal crops. For 2002, the Romanian Ministry of Agriculture set up priority programs addressing oilseed plants and a few other alternatives: sugar beets, linen and hemp.

Grain yields in 2002 will be reduced by severely below-normal soil moisture in the main cereal growing areas (the southern and eastern plains). Following a dry winter, winter and spring crops have been planted late under drought conditions. Severely low temperatures early in the winter further reduced plant germination and emergence. The rainfall pattern worsened in January and February (when temperatures well above normal for seven consecutive weeks broke dormancy), so that the water deficit peaked in March in Dobrogea, Oltenia, most of the Danube Plain and south-Moldova in some areas at 300 cubic meters per hectare.. In mid-March temperatures abruptly fell several degrees Celsius below zero, impeding growth. However, April came with beneficial precipitation (totaling between 10-25 liter/square meter in some of the key growing areas, so that, though in general the level of moisture is still reduced, currently only scattered sites are still drastically affected by drought.

Official statistics report an overall damaged acreage for winter crops standing at 31,000 hectares for wheat, 11,000 hectares for barley, 1,500 hectares for two-row barley. Romania's 2001/02 wheat crop is currently forecast to barely exceed 5.5 million MT (down 18% from last year), at an yield of 2.4 MT/hectares. An estimated 2.6 MT/hectares would result in a modest 780,000 MT of barley (24% less in 2001); corn is expected to be planted on 2.98 million hectares in the spring of 2002, resulting in a crop of about 7.5 MMT (6.6% up).

CONSUMPTION

Food grains

Wheat from the MY 2001/2002 harvest was slightly below the local baking standards (20 – 26 percent for gluten content and 11 – 13 percent for protein). About 10% of the total output developed sprouting, because of the rainfall during the harvest period.

Cereal-based products have traditionally held a large portion in the human consumption pattern in Romania. The portion of grains in the Romanian diet has continued to expand as incomes have declined. About 3.3 MMT of wheat are devoted every year to cover the domestic human consumption. Near 800,000 MT of corn are also consumed as food (especially in the rural households).

Feed grains

Swine inventories decreased by about 7 percent between the end of January 2001 and the end of January 2002. Downward trends registered during the same period the bovine livestock numbers (3 percent decrease) and the sheep and goat population (4 percent down), but a recovery in the poultry breeding industry (5 percent up) partly made up for the drop in feed use.

Corn supply overgrows the demand by far, and feed makers complain about unacceptably low bids. At the end of February the stocks of corn were assessed at near 3.0 MMT, most of it (2.4 MMT) held by individual farmers. A good barley harvest in the year 2002 allowed both the use of over 520,000 MT by the domestic livestock farmers and feed makers, and exports of more than 380,000 MT.

The Romanian Ministry of Agriculture launched in calendar year 2002 a comprehensive program (representing more than 25 percent of the total budgetary outlay) to revamp domestic animal breeding and meat production; in tandem with herds' expansion, feed grains consumption is expected to expand.

Other uses

Over 550,000 MT of wheat were used for sowing in the fall of 2001, while a slightly lower amount is expected to be planted in the fall of 2002, as the area under wheat is forecast to gradually diminish in the coming years.

Similarly, area under corn is likely to shrink by more than 15 percent within a 5-year time horizon. Because of seed prices still prohibitive for the small farmers, in the recent years more than half of the area under corn has been sown with corn from their own production, drastically affecting yields, though in 2002, like every other year, a subsidy covering 28 percent of the seed selling prices is provided from the budget. For this spring campaign, the existing inventory of certified corn seeds stood at 24,900 MT, a total not even 40 percent of the requested amount. Another 2,500 MT of planting seeds were imported. Biotech corn does not have a fully commercial status in Romania, but recently an herbicide resistant event was approved for field testing.

TRADE

From the 2001/02 harvest, Romania exported up to end-March about 500,000 metric tons of wheat, the main destinations being Middle East and the Mediterranean Region countries: Morocco, Italy, Tunisia, Sudan, the Arab Emirates, Algeria, and Israel. FOB prices in Constantza port (the main transit gate) have varied around \$92-95/MT, depending on the gluten content. A good portion of the Romanian wheat is not eligible for use in the milling industry because it generally lacks consistency and millers prefer large homogenous lots. The very high variance in quality is a result of a generally low level of technological adaptation by Romania's producer's, which makes quality very sensitive to weather conditions.

Feed grain has been remaining a good seller over the marketing year, exported at about \$85 FOB.

Barley enjoyed substantial demand, near 310,000 MT (\$27.9 M worth, fob prices) being shipped through the period July 2001-February 2002 to states in the same region (Saudi Arabia, Morocco, Tunisia, Libya, Israel, Algeria), while other quantities awaiting in the port silos are expecting to raise exports at 380,000 MT by July.

Some 90,000 MT of corn (averaging \$91/ton) were exported within October-April to Turkey, Algeria, Morocco, Tunisia, Lebanon, Cyprus, Hungary, Austria, etc., an additional amount of 110,000 MT forecast to be exported by the time of the next harvest.

Romania traditionally imports higher quality baking wheat (to be blended with the domestically produced product) and wheat flour from the neighboring countries (Hungary, Bulgaria), at the 15percent ad valorem CEFTA preferential duty. Durum wheat is sourced mainly from the EU (Italy, France)

Current MFN duties and preferential rates granted to trading partners from the EU and CEFTA, respectively, for different grain products are as follows (Table 1):

Table 1: Current duties on selected grain products

HS	Commodity	MFN Tariff	Applied to imports from the EU	Applied to imports from CEFTA
10019099	Common wheat, other	25	18.8	15
10011000	Durum wheat	Ex.	Ex.	Ex.
10019091	Common wheat of a kind used for sowing	25	18.8	15
110100	Wheat flour	40	40	15
10030090	Barley, other	25	18.8 (1)	18
10030010	Barley of a kind used for sowing	25	18.8 (2)	18
	Corn			
100590	Corn, other	30	30	30 (3)
100510	Corn of a kind used for sowing	3	2.3 (4)	0
100610	Rice, paddy rice	10	10	0
100620	Brown rice	10	10	0
100630	White rice	25	18.8 (5)	0

Ex.- tax exempted

- (1) For a 55,882 MT TRQ.
- (2) For a 1118 MT TRQ.
- (3) 15percent for imports from Poland.
- (4) For 1000 MT.
- (5) For 10,000 MT.

PRICES

Grain producers are increasingly displeased with the current domestic prices, which continue to deteriorate as a reasonably good crop is expected. Wheat for bread sells at \$90-92/MT while bids like \$81-87/MT for corn discourage farmers. In western Romania things are even more dramatic, with corn prices going as low as \$71/MT, under the pressure of Hungary-originated imports. Price evolution on local market in 2001-02 is given in Table 2 below:

Table 2: Domestic and export parity prices (\$/MT CPT. Constantza basis)

Starting 2001		
Month	Wheat	Corn
July	100	
August	104	
September	101	
October	90	83
November	93	79
December	92	81
January	95	83
February	95	92
March	92	89
April	92	87
AVERAGE FOR 2001	96.67	81
Domestic prices as of March 2002 (in-silo)		
Corn	90	
Wheat	93	
Barley	78	

Source: Local traders

Year by year grain domestic prices have crept down, situation to which partly contributed the Government policy to release wheat from the Strategic Reserve during the ending months of the marketing year in an attempt to keep bread retail prices low. The level of prices at which stabilization releases took place every year (including 2001) was too low in relation to import parity, thereby reducing the markets expectations of substantial seasonal price rise in future years. This naturally tends to reduce the willingness of the domestic trade to hold seasonal stocks and reduce the ability of the domestic market to be self-stabilizing.

The State Reserve Agency (SRA) started with a nominal stock of 850,000 MT and was reduced in 1997 at 350,000 MT, as a World Bank Agricultural Sector Adjustment Loan disbursement condition. This measure was thought to minimize detrimental interference to free market development and limit the costs of stockholding. The reserve was supposed to be limited to use in emergency situations only.

The private sector storage and trading system is still at an early stage of development: many warehouses have only recently acquired their assets, typically through management-employee, and the financing mechanism for private traders and millers to acquire the crop are not yet fully functioning. International trading companies have entered the market and are actively seeking opportunities, principally for external transactions in grain.

DOMESTIC SUPPORT POLICY

Subsidies for crop production in 2002 target solely the “commercial farm”, as defined by recently passed legislation. This legislation defines the agro-exploitation by type: in the areas where cereals are grown, only farms with more than 110 Hectares qualify. This is seen as an incentive to farmers to consolidate their lands into associations of a viable size, thus addressing the issue of the excessive land fragmentation in Romania.

At the same time, the bulk of budgetary allocations were shifted from input to output subsidization, with the notable exception of certified seeds for different crops (rice, sugar beet, linen and hemp, vegetables, soybeans, sunflower, beans, potatoes, corn, fodder plants), for which the selling price is up to 50 percent covered from the budget.

Direct payments are to be provided to agricultural producers in two tranches, the first one as an advance payment of 30 percent at planting, the second at commercialization. Out of a total of \$67.9 M obliged for this purpose, 3.5 MMT of wheat are to get the equivalent of \$28.3 M (i.e., about \$8/MT), while for 1.5 MMT of corn and sorghum, \$6.33 M are to be disbursed (that is \$4.22/MT).

Indirect subsidies to crop production

The main subsidies in this category are for irrigation, drainage and soil erosion control, totaling approximately \$39 M, most of which (65 percent) via the Land Reclamation National Authority (RNA). In late March 2002 over 1 million hectares were prepared for irrigation, though only on half of this area irrigation laterals were available; moreover, for not more than 130,000 hectares contracts for irrigation services had been signed.

The second category is support to plant protection and phyto-sanitary control, pesticides procurement and crop diseases prevention, amounting to approx. \$3.8 million

A breakdown of the total budgetary support provided under crop programs is given in Table 3.

Table 3: Allocations for crop programs in the FY 2002

	Million USD*	% of total MinAg budgetary outlays
Total subsidies	238.1	72
Crop programs, of which:	145.2	44
(1) Direct procurement payments, o/w	67.9	20
• For wheat	28.3	9
(2) Subsidies for reducing the selling price of certified seeds, o/w	34.3	10
• For wheat	16.8	5
(3) Irrigation, drainage, and erosion control	39.3	12
(4) Plant protection and phyto-sanitary measures	3.8	1

* At 35,000 ROL/US\$ exchange rate.

PSD Table Barley

PSD Table						
Country	Romania					
Commodity	Barley				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	350	213	569	316	0	300
Beginning Stocks	100	100	74	0	74	20
Production	750	570	1100	1055	0	780
TOTAL Mkt. Yr. Imports	76	91	100	50	0	120
Oct-Sep Imports	59	80	100	50	0	70
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	926	761	1274	1105	74	920
TOTAL Mkt. Yr. Exports	102	89	400	380	0	155
Oct-Sep Exports	300	210	300	250	0	250
Feed Dom. Consumption	550	460	600	500	0	520
TOTAL Dom. Consumption	750	672	800	705	0	740
Ending Stocks	74	0	74	20	0	25
TOTAL DISTRIBUTION	926	761	1274	1105	0	920

Barley Export Trade Matrix

Export Trade Matrix			
Country	Romania		
Commodity	Barley		
Time period	CY 2001	Units:	

Exports for:	MT		1
U.S.		U.S.	
Others		Others	
Saudi Arabia	163000		
Morocco	38795		
Tunisia	16032		
Israel	10000		
Algeria	8400		
Libya	7500		
Total for Others	243727		0
Others not Listed	492		
Grand Total	244219		0

PSD Table Corn

PSD Table						
Country	Romania					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Harvested	2700	2860	2900	2910	0	2980
Beginning Stocks	1650	1500	200	603	2050	1078
Production	4500	4800	8800	7000	0	7500
TOTAL Mkt. Yr. Imports	350	418	50	10	0	15
Oct-Sep Imports	350	418	50	10	0	15
Oct-Sep Import U.S.	0	14	0	1	0	3
TOTAL SUPPLY	6500	6718	9050	7613	2050	8593
TOTAL Mkt. Yr. Exports	50	15	200	210	0	500
Oct-Sep Exports	50	15	200	210	0	500
Feed Dom. Consumption	4600	4900	5300	5300	0	5800
TOTAL Dom. Consumption	6250	6100	6800	6325	0	7340
Ending Stocks	200	603	2050	1078	0	753
TOTAL DISTRIBUTION	6500	6718	9050	7613	0	8593

Corn Export Trade Matrix

Export Trade Matrix			
Country	Romania		
Commodity	Corn		
Time period	CY 2001	Units:	
Exports for:	MT		1
U.S.		U.S.	
Others		Others	
Algeria	10044		
Cape Verde	5500		
Lebanon	5000		
Serbia	3982		
Morocco	2575		
Cyprus			
Turkey			
Total for Others	27101		0
Others not Listed	5204		
Grand Total	32305		0

PSD Table Wheat

PSD Table						
Country	Romania					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	1600	1942	2500	2552	0	2290
Beginning Stocks	700	800	600	767	2200	1457
Production	4400	4600	7900	6700	0	5500
TOTAL Mkt. Yr. Imports	506	357	100	40	0	100
Jul-Jun Imports	506	357	100	40	0	100
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	5606	5757	8600	7507	2200	7057
TOTAL Mkt. Yr. Exports	106	90	900	600	0	600
Jul-Jun Exports	106	90	900	600	0	600
Feed Dom. Consumption	1600	1200	2150	1350	0	1600
TOTAL Dom. Consumption	4900	4900	5500	5450	0	5500
Ending Stocks	600	767	2200	1457	0	957
TOTAL DISTRIBUTION	5606	5757	8600	7507	0	7057

Wheat Export Trade Matrix

Export Trade Matrix			
Country	Romania		
Commodity	Wheat		
Time period	CY 2001	Units:	MT
Exports for:	MT		1
U.S.	0	U.S.	
Others		Others	
Morocco	103837		
Italy	68967		
Tunisia	51043		
Sudan	31198		
The Arab Emirates	29923		
Algeria	13000		
Total for Others	297968		0
Others not Listed	107035		
Grand Total	405003		0

Wheat Import Trade Matrix

Import Trade Matrix			
Country	Romania		
Commodity	Wheat		
Time period	CY 2001	Units:	
Imports for:	MT		1
U.S.		U.S.	
Others		Others	
Hungary	175000		
Turkey	34000		
France	22000		
Italy	1655		
Bulgaria	1021		
Total for Others	233676		0
Others not Listed	62552		
Grand Total	296228		0